

**REPORT OF
FINANCIAL EXAMINATION**

LIBERTY FIRE BENEVOLENT SOCIETY

**AS OF
DECEMBER 31, 2004**

**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

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June 23, 2005
Jefferson City, Missouri

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

LIBERTY FIRE BENEVOLENT SOCIETY

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 5405 Stoney Ridge Lane, Jefferson City, Missouri, telephone number (573) 395-4333.

This examination began on June 22, 2005, and was concluded on June 23, 2005, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 1999, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2000, through December 31, 2004, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri

prevailed.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 1999, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Corporate Records

Comment: It was recommended the Company put more Company policies in writing, which should be maintained in an up-to-date manual and made available to Company management and personnel.

Company Response: The Company drafted and approved a policies and procedures manual during the examination period.

Current Findings: The Company currently has a policies and procedures manual in place, which adequately addresses the business of the Company.

Fidelity Bond and Other Insurance

Comment: It was recommended the Company acquire liability coverage for its directors and officers.

Company Response: The Company obtained liability coverage for its directors and officers during the examination period.

Current Findings: The Company currently has liability coverage for its directors and officers.

Territory and Plan of Operation

Comment: It was recommended the Company maintain a written contract with its agent.

Company Response: The Company entered into a written contract with its agent during the examination period.

Current Findings: The Company has a written contract with its agent.

HISTORY

General

The Company was organized on May 25, 1892, and was incorporated on September 30, 1935. The Company is covered by Sections 380.011 through 380.151 RSMo. (Missouri Mutual Insurance Companies).

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the first Friday in May, at the home office of the Company or at such other place as may be designated by the Board of Directors. Ten members shall constitute a quorum at any membership meeting. Proxy voting is not permitted. During the examination period, the Company held three annual membership meetings at which a quorum was not present. It is recommended the Company ensure the quorum requirements, as stipulated by the Articles of Incorporation, are met at all future annual membership meetings.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of five members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets annually and as required to fulfill Company needs. Directors are compensated \$200 annually, with officers receiving additional compensation based upon the office held.

Members serving on the Board of Directors as of December 31, 2004, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
David Braun 2500 Osage Bend Road Jefferson City, Missouri	Farmer	2003-2006

Tony Fork 6104 Helias Drive Jefferson City, Missouri	Postal Employee	2002-2005
Rita Keperin 5405 Stoney Ridge Lane Jefferson City, Missouri	State Employee/ Company Manager	2002-2005
Michael Forck 6438 Liberty Road Jefferson City, Missouri	Farmer/County Commissioner	2004-2007
Roger Hagner 3807 Horseshoe Bend Road Jefferson City, Missouri	Farmer/State Employee	2004-2007

The Board of Directors appoints for a term of one year, a President, a Vice-President, and a Secretary, who may also serve as Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2004, were as follows:

David Braun	President
Tony Forck	Vice-President
Rita Kerperin	Secretary
Michael Forck	Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. No amendments have been made to the Articles of Incorporation or Bylaws since the last examination.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's policies for investments and underwriting were reviewed. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$50,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$25,000 and \$50,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$500,000.

The Company's agent is responsible for obtaining his own errors and omissions liability coverage, and no reimbursement is made by the Company.

The Company owns no real or personal property and thus does not require insurance coverage on such items.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has three part-time employees, which are also officers of the Company. No benefits, outside of annual compensation, are provided by the Company to the employees.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as Missouri Mutual Insurance Company operating under Sections 380.011 through 380.151 RSMo. (Missouri Mutual Insurance Companies). The Company is authorized to write fire and wind insurance in Cole and adjoining counties in the State of Missouri. The Company writes fire and wind coverages and markets liability coverage through a cooperative agreement with an unaffiliated insurer. The Company's policies are sold by one licensed

producer, who is also the Company Treasurer. The agent receives compensation of \$30 per hour for work related to policy issuance.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms. The policies are written for a one-year period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by the agent.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2004	\$1,138,506	\$0	\$289,390	\$173,592	\$38,206	\$(53,859)	\$(15,653)
2003	1,154,159	0	253,055	872,028	44,085	(23,735)	20,350
2002	1,133,809	0	245,091	61,278	44,907	89,199	134,106
2001	999,703	0	242,326	93,932	51,677	48,485	100,162
2000	899,666	125	231,838	133,453	46,820	37,498	84,318

At year-end 2004, 497 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Direct	\$230,591	\$240,563	\$242,112	\$251,303	\$287,742
Assumed	0	0	0	0	0
Ceded	<u>(94,241)</u>	<u>(107,358)</u>	<u>(116,809)</u>	<u>(139,109)</u>	<u>(182,510)</u>
Net	<u>\$136,350</u>	<u>\$133,205</u>	<u>\$125,303</u>	<u>\$112,194</u>	<u>\$105,232</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Farmers Mutual Hail Insurance Company of Iowa (the reinsurer) under per risk and aggregate excess of loss agreements for property risks. The per risk excess of loss agreement contains two layers of coverage. Under the first layer of coverage, the Company retains \$25,000 each risk, each loss occurrence and the reinsurer's limit is 100% of \$60,000. Under the second layer of the agreement, the reinsurer's limit is 100% of \$115,000, in excess of the combined Company retention and reinsurer limit of \$85,000 of the first layer of coverage. Individual risks ceded under the agreement are limited to \$200,000. Premium for 2004 under the first layer is based on loss experience under the contract, with a minimum rate of 15% and a maximum rate of 38% of gross net written premium income. Premium for 2004 under the second layer is 12% of gross net written premium income.

The aggregate excess of loss agreement contains three layers of coverage. Under the first layer of coverage, the reinsurer assumes liability for 100% of losses exceeding 200% of the Company's gross net written premium income for the year, limited to 110% of the Company's gross net written premium for the year. Under the second layer of coverage, the reinsurer assumes liability for 100% of losses exceeding 310% of the Company's gross net written premium income for the year, limited to 340% of the Company's gross net written premium for the year. Under the third layer of coverage, the reinsurer assumes liability for 100% of losses exceeding 650% of the Company's gross net written premium income for the year, limited to the lesser of 550% of the Company's gross net written premium for the year or \$728,750.

The Company has a facultative reinsurance agreement with the reinsurer for risks that exceed the individual risk limits outlined in the excess of loss agreements. Rates are equal to the rates charged by the Company, and the Company receives a 20% ceding commission.

The Company also has a mutual agreement with the Farmers Union Co-Operative Insurance Company of Nebraska (Farmers Union) under which the Company writes liability coverage for Farmers Union. The Company receives a 15% commission and a 2% service fee on liability premiums written for Farmers Union.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on a modified cash basis. An outside accountant completes the Annual Statement and tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2004

Bonds	\$ 60,200
Cash on Deposit	153,537
Other Investments- Certificates of Deposit	921,447
Interest Due and Accrued	3,322

Total Assets	<u><u>\$ 1,138,506</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2004

Total Liabilities	\$ 0

Other Surplus	1,138,506

Total Surplus	\$ 1,138,506

Total Liabilities and Surplus	<u><u>\$ 1,138,506</u></u>

STATEMENT OF INCOME
December 31, 2004

Net Premium	\$ 105,232
Net Losses Incurred	(128,049)
Other Underwriting Expenses	(31,042)

Net Underwriting Income (Loss)	\$ (53,859)

Investment Income	\$ 38,206
Other Income	0

Gross Income (Loss)	\$ (15,653)
Federal Income Tax	0

Net Income (Loss)	\$ (15,653)
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2004

Policyholders' Surplus, December 31, 2003	\$ 1,154,159
Net Income (Loss)	(15,653)

Policyholders' Surplus, December 31, 2004	\$ 1,138,506
	=====

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

Management (Page 3)

It is recommended the Company ensure the quorum requirements, as stipulated by the Articles of Incorporation, are met at all future annual membership meetings.

SUBSEQUENT EVENTS

None.

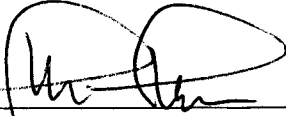
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Liberty Fire Benevolent Society during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Shannon W. Schmoeger, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 16th day of August, 2005.

My commission expires:

May 1, 2008

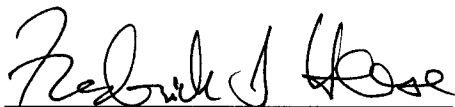


Notary Public

DEBBIE J. NOLKE
Notary Public - Notary Seal
STATE OF MISSOURI
County of Boone
My Commission Expires May 1, 2008

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Frederick G. Heese, CFE, CPA
Audit Manager – Kansas City
Missouri Department of Insurance

Sworn to and subscribed before me this 16th day of August, 2005.

My commission expires:

03-17-2008


Notary Public

BEVERLY M. WEBB
Notary Public - Notary Seal
STATE OF MISSOURI
Clay County
My Commission Expires March 17, 2008

LIBERTY FIRE BENEVOLENT SOCIETY

David Braun, Chairman
Rita Kerperin, Secretary
Mike Forck, Treasurer
Tony Forck, Vice-Chairman
Roger Hagner, Director

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SEP 07 2005

5405 Stoney Ridge Lane
Jefferson City, Missouri 65101
Telephone 573 395-4333
Fax 573 395-4902

September 2, 2005

Mr. Kirk Schmidt, CFE, CPA
Chief Financial Examiner
Department of Insurance
P. O. Box 690
Jefferson City, MO 65102

Dear Mr. Schmidt:

I am in receipt of the recent review copy of the Examination Report of the Liberty Fire Benevolent Society for the period ending December 31, 2004.

I have reviewed the report and am pleased to see that we are and have been in compliance with the guidelines set forth by the Missouri Department of Insurance with the exception of one.

"GENERAL COMMENTS AND RECOMMENDATIONS

Management (Page 3)

It is recommended the Company ensure the quorum requirements, as stipulated by the Articles of Incorporation, are met at all future annual membership meetings."

We will take note of this issue and make sure that before the Annual Meeting is started, that we are in compliance with the Articles of Incorporation and have at least 10 members present.

Thank you for the opportunity to review the draft report and for the opportunity to include our comments in the report as a public document.

Sincerely,



David Braun
President